

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

D.T.E. NO. 01-20

RECORD REQUEST: Department of Telecommunications and Energy to AT&T
Communications of New England, Inc.

DATE: January 29, 2002

RR-DTE-56 Ms. Pitts stated that she had done a “back-of-the-envelope” calculation in another state that presumed a blend of new and growth discounts for switches. Provide either the exact “back-of-the-envelope” calculation that was provided in the other state or provide a refined version of the calculation. If AT&T chooses to provide a refined version of this calculation, the refined version should capture the methodology described by Ms. Pitts in her oral testimony.

Respondent: Catherine E. Pitts

RESPONSE: The attached discount factor adjustment worksheet can be used as a template to determine the melded growth/new switch discounts over the life of a switch. The worksheet is based on 15 years, but years can be added or deleted. The annual growth and cost of capital are user adjustable inputs.

The results can be used to determine what the melded discount input to SCIS would be to calculate a melded new/growth cost of switching. Note, however, that the melded discount would be used to produce results associated only with the parts of a switch expected to grow. The SCIS Getting Started cost output should be computed using a new switch discount. The remaining output categories can be calculated with the melded discount input.

This worksheet can only be used to determine melded growth/new switch discounts.

AT&T does not, of course, advocate this approach to switch pricing. If the Department were to utilize the Verizon Cost Model to determine switch discounts, under TELRIC the Department should assume the placement of Nortel switches which cost approximately half as much as Lucent switches. Alternatively, should the Department decide that

discounts will be based on a mix of Nortel and Lucent prices, the switch prices should be based on a new switch discount in order to produce the best estimate of long-run switch costs.

The attached worksheet is proprietary as it contains Verizon-MA new and growth switch discounts. It is therefore only being provided on diskette to the Department and Verizon.